SH-30

NANOBUSINESS alliance

244 Madison Ave. suite 485 www.nanobusiness.org
New York, NY. 10016
p: 866 276 3243

March 24, 2005

Gary M. Jackson
Assistant Administrator for Size Standards
Office of Size Standards
Small Business Administration
409 Third Street, SW
Washington, DC 20416

Re: Proposed Rulemaking Affecting SBIR Funding

Dear Mr. Jackson:

On behalf of the NanoBusiness Alliance, I would like to thank you for the opportunity to comment on the Small Business Administration's (SBA) Advance Notice of Proposed Rulemaking (ANPRM) regarding the participation of businesses in the SBIR program that are majority-owned by one or more venture capital companies (VCC).

The NanoBusiness Alliance is the first and largest organization representing the nanotechnology industry. Many of our hundreds of members are small start-up businesses commercializing leading-edge innovations in nanotechnology. Many of these small businesses derive much of their capital from VCCs and are majority-owned by these VCCs. In addition, a significant number of VCCs are themselves members of the Alliance.

The start-up members of the NanoBusiness Alliance are exactly the type of small business that the SBIR program was designed to help. Companies like these frequently receive SBIR grants to fuel their research and development, which leads to the commercialization of their technology. Vital though it is, however, SBIR funding is generally not sufficient to operate a company. Along with SBIR funding, financial support from venture capital firms is often necessary. Without venture capital support it is unlikely that many of our members' technologies would be fully commercialized. It is for this reason that the NanoBusiness Alliance believes it is imperative that venture-backed small businesses be allowed to participate in the SBIR grant program.

We understand that the 51 percent rule now allows an SBIR award recipient to be owned by a VCC, as long as the VCC is itself owned and controlled by U.S. individuals. Applicants who meet the ownership criteria in the 51 percent rule, however, are still subject to SBIR size standards – most significantly, limiting the number of employees of the applicant and its affiliates to 500. The SBA is now seeking comment as to whether VCCs should be excluded from this definition of affiliate when determining small business eligibility for the SBIR program.

While we applaud the SBA's recognition in the 51 percent rule that a business concern can be technically both majority-owned by VCCs and still eligible to receive an SBIR award, the rule as currently formulated does not fully accomplish the goals of the Small Business Innovation Development Act (SBIDA), since the majority of limited partners in a VCC are not individuals even if in such cases, as in pension funds, they represent the interests of individuals. We believe that more steps are necessary in order to create a pragmatic framework that reasonably allows VCC-financed small businesses to receive SBIR grants. We

NANOBUSINESS alliance
244 Madison Ave. suite 485 www.nanobusiness.org
New York, NY. 10016
p: 866 276 3243

believe that the SBA should (1) provide an exclusion from affiliation with VCCs in determining small business eligibility and (2) further extend an exception to the 51 percent rule to include VCCs in the definition of "individuals."

The President and Congress have made nanotechnology research and development a national priority. The United States faces stiff competition for world leadership in the field, and the technological and economic consequences of losing that leadership would be significant. The small businesses that are innovating and commercializing in the area of nanotechnology need and deserve the full support of the SBIR program. Modifying the 51 percent rule is a much-needed step toward ensuring this support.

I appreciate the opportunity to comment on this important matter.

Sincerely,

Sean Murdock
Executive Director
NanoBusiness Alliance